

Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 AEC-11 AID-20 CEA-02 CIAE-00 CIEP-02

COME-00 DODE-00 EB-11 FEA-02 FPC-01 H-03 INR-10

INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07 RSC-01 SAM-01

SCI-06 SP-03 SS-20 STR-08 TRSE-00 PA-04 USIA-15

PRS-01 DRC-01 /169 W

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P 311909Z MAY 74

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC PRIORITY 4017

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DEPARTMENT PASS ARA POSTS

E.O. 11652: N/A

TAGS: EFIN, EMIN, ENRG, EGEN, VE

SUBJECT: PEREZ ECONOMIC PROGRAM

REF: CARACAS 3739

SUMMARY.

CONCERN IN U.S. OVER SOME ASPECTS OF PRESIDENT CARLOS ANDRES PEREZ' ECONOMIC POLICY, ANNOUNCED IN APRIL 29TH SPEECH, WHICH MAY ADVERSELY AFFECT SOME U.S. ECONOMIC INTERESTS HAS TENDED TO OBSCURE THE FACT THAT PRESIDENT PEREZ' PROGRAM CONTAINS MUCH THAT IS VERY POSITIVE FOR VENEZUELA AND PERHAPS ALSO FOR US/VENEZUELAN RELATIONS. DOMESTIC POLICY GOALS ANNOUNCED BY PRESIDENT PEREZ, IF WISELY IMPLEMENTED, WOULD CONSTITUTE A PROGRAM OF A WISDOM AND MAGNITUDE RARELY SEEN IN LATIN AMERICA. TO UNDERSTAND WHOLE PROGRAM IT IS NECESSARY TO SEPARATE IT INTO COMPONENT PARTS BALANCING SOME ASPECTS AFFECTING FOREIGN CAPITAL, WHICH WILL PROBABLY NOT BE HELPFUL AND MAY BE HARMFUL, EVEN IN STRICTLY VENEZUELAN TERMS, AGAINST OTHER ASPECTS THAT ARE VERY POSITIVE FOR THE COUNTRY AND FOR ITS FUTURE POLITICAL AND ECONOMIC

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STABILITY. END SUMMARY.

1. CONSIDERING PRESIDENT PEREZ' ECONOMIC PROGRAM AS A WHOLE IT IS CONVENIENT TO THINK OF IT IN TERMS OF THEREE TYPES OF MEASURES:

1. MEASURES AFFECTING OIL AND IRON ORE INDUSTRIES;
2. MEASURES AFFECTING OTHER FOREIGN INVESTMENT; AND
3. DOMESTIC MEASURES.

2. MEASURES THAT PEREZ GOVERNMENT WILL TAKE WITH RESPECT TO OIL AND IRON ORE INDUSTRIES ARE STILL BEING DEVELOPED, BUT FROM WHAT IS KNOWN OF THEM AT THIS TIME THEY APPEAR TO BE MORE MODERATE THAN ANYONE HAD THOUGHT LIKELY. (NATIONALIZATION OF IRON ORE IS, OF COURSE, COMING EARLIER THAN ANYONE EXPECTED, BUT IT WAS CONSIDERED INEVITABLE.) OIL COMPANIES (ESPECIALLY LARGER COMPANIES) AND IRON ORE COMPANIES ARE VERY OPTIMISTIC THAT THEY WILL BE ABLE TO WORK OUT DEALS UNDER WHICH THEY WILL HAVE CONTINUED ACCESS TO OIL AND IRON ORE AND WILL CONTINUE TO PLAY SIGNIFICANT ROLE IN MANAGEMENT OF THEIR RESPECTIVE INDUSTRIES IN VENEZUELA, WHILE RECEIVING COMPENSATION FOR THE VALUE OF THEIR ASSETS TO BE TAKEN OVER BY THE VENEZUELAN GOVERNMENT. AS PEREZ GOVERNMENT IS STILL DEVELOPING ITS POLICIES ON PETROLEUM AND IRON ORE NATIONALIZATION, THINGS COULD TURN OUT BADLY IN THE END, BUT AT THIS TIME COMPANIES ARE OPTIMISTIC.

3. MEASURES AFFECTING OTHER TYPES OF FOREIGN INVESTMENT IN VENEZUELA MAINLY RELATE TO VENEZUELA'S ACTION UNDER DECISION 24 OF THE ANDEAN PACT TO REQUIRE CERTAIN COMMERCIAL AND SERVICES FIRMS TO BECOME 80 PERCENT VENEZUELAN OWNED WITHIN 3 YEARS. VENEZUELA'S ANNOUNCED INTENTIONS IN THIS REGARD COULD HAVE ADVERSE IMPLICATIONS FOR THESE U.S. INTERESTS AFFECTED. HOWEVER, WE DO NOT YET KNOW IN WHAT WAY THESE MEASURES WILL BE IMPLEMENTED AND TO WHAT EXTENT THE COMPANIES AFFECTED MAY BE ABLE TO BENEFIT FROM VARIOUS LOOPHOLES OR FUTURE MODIFICATIONS. THESE MEASURES, WHILE REGRETTABLE FROM THE POINT OF VIEW OF THE ECONOMIC INTERESTS INVOLVED, DO NOT POSE ANY SIGNIFICANT CHALLENGE OR THREAT TO U.S. INTERESTS AND ARE IN NO WAY COMPARABLE IN IMPORTANCE TO MEASURES AFFECTING OIL AND IRON ORE INDUSTRIES. IT IS NOT YET KNOWN WHETHER VENEZUELAN DECREES IN IMPLEMENTATION OF DECISION

24 WILL GIVE RISE TO FINANCIAL LOSSES THAT WOULD LEAD TO CLAIMS FOR COMPENSATION.

4. MOST IMPRESSIVE PORTION OF PRESIDENT PEREZ' PROGRAM IS HIS LIMITED OFFICIAL USE

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SERIES OF DOMESTIC MEASURES DESIGNED TO RESTRUCTURE VENEZUELAN ECONOMY. ALTHOUGH EMBASSY REFERRED TO THIS PROGRAM AS "REVOLUTIONARY" IN A PREVIOUS MESSAGE (CARACAS 3739), THIS WAS NOT INTENDED IN A PEJORATIVE SENSE, BUT IN SENSE OF PROPOSED RAPID CHANGE. VENEZUELAN SOCIETY IS A SOCIETY WHICH MANIFESTS TO AN EXCESSIVE DEGREE EXTREMES OF WEALTH AND POVERTY, WHICH THREATEN TO WORSEN UNDER IMPACT OF VASTLY

INCREASED OIL REVENUES. THIS SITUATION, IF NOT AMELIORATED, HAS AN

EXPLOSIVE POTENTIAL FOR THE DESTRUCTION OF VENEZUELAN SOCIETY. THIS FACT IS WIDELY RECOGNIZED, EVEN AMONG MANY WEALTHY VENEZUELAN WHOSE IMMEDIATE FINANCIAL INTERESTS WILL BE ADVERSELY AFFECTED BY MEASURES THAT PRESIDENT PEREZ PROPOSES TO TAKE TO INCREASE SOCIAL JUSTICE IN VENEZUELA.

5. DESCRIBING DETAILS OF PRESIDENT PEREZ' DOMESTIC PROGRAM AT THIS TIME

IS NOT POSSIBLE BECAUSE HE HAS ANNOUNCED THUS FAR ONLY HIS GOALS AND THE GENERAL DIRECTION OF HIS POLICY, AND HAS NOT ANNOUNCED, FOR THE MOST PART, IN WHAT SPECIFIC WAYS HE WILL TRY TO ACHIEVE THOSE GOALS. MOST THE DETAILS OF HIS PROGRAM WILL ONLY BECOME KNOWN NOW THAT HE HAS BEEN

GRANTED THE "EMERGENCY POWERS" WHICH HE HAD REQUESTED FROM CONGRESS. THESE POWERS, APPROVED MAY 20, WILL BE BROAD ENOUGH AND SWEEPING ENOUGH TO ENABLE HIM TO PROMULGATE HIS ECONOMIC PROGRAM BY DECREE. HOW FAST, HOW FAR, AND HOW WISELY HE MOVES IN USING THESE "EMERGENCY POWERS" WILL DETERMINE WHETHER HIS PROGRAM, WHICH HAS SUCH LOFTY GOALS, CAN BE SUCCESSFULLY IMPLEMENTED.

6. IN TOTO, PRESIDENT PEREZ' DOMESTIC PROGRAM APPEARS TO CONTEMPLATE TAKING IN ONE GIANT STEP MANY OF KINDS OF MEASURES THAT HAVE ALREADY BEEN TAKEN IN U.S. OVER PERIOD OF YEARS UNDER "NEW DEAL" AND SUCCESSOR

PROGRAMS. PEREZ PROGRAM HAS RECEIVED OVERWHELMING SUPPORT FROM GENERAL

PUBLIC AND CONGRESS, BUT PROPOSED WAGE INCREASE AND UNCERTAINTIES OVER

FUTURE COURSE OF PROGRAM HAVE CREATED CONCERN AMONG SOME LOCAL BUSINESSMEN.

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ACTION ARA-20

INFO OCT-01 ISO-00 AEC-11 AID-20 CEA-02 CIAE-00 CIEP-02

COME-00 DODE-00 EB-11 FEA-02 FPC-01 H-03 INR-10

INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07 RSC-01 SAM-01

SCI-06 SP-03 SS-20 STR-08 TRSE-00 PA-04 USIA-15

PRS-01 DRC-01 /169 W

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7. TAX REFORM IS PROBABLY MOST DIFFICULT AND CRUCIAL ELEMENT OF PEREZ' PROGRAM. WE DO NOT KNOW WHAT SPECIFIC TAX CHANGES HE CONTEMPLATES. CLEARLY WHATEVER HE PROPOSES WILL CREATE CONSIDERABLE OPPOSITION AMONG MEMBERS OF UPPER-MIDDLE AND MIDDLE CHASSES WHO WILL BEAR MOST OF BURDEN. NEVERTHELESS, IF HIS SPECIFIC PROPOSALS ARE WELL THOUGHT OUT, THEY HAVE A GOOD CHANCE OF GRUDGING ACCEPTANCE, GIVEN

RATHER WIDESPREAD OPINION AMONG THINKING MEMBERS OF UPPER CLASSES THAT SUCH MEASURES ARE NOW ESSENTIAL TO PRESERVATION OF CAPITALISTIC SYSTEM IN VENEZUELA.

8. OTHER PEREZ MEASURES THAT COULD HAVE AN IMPORTANT IMPACT ON STRUCTURE OF VENEZUELAN SOCIETY AND IN EVERY CASE A POSITIVE IMPACT ARE SUCH MEASURES AS: HIS PROPOSED REFORM OF THE BUREAUCRACY AND STATE ENTERPRISES; HIS VARIOUS PROGRAMS TO GIVE EMPHASIS IN ECONOMIC DEVELOPMENT TO AGRICULTURE; HIS SERIES OF MEASURES INCLUDING WAGE INCREASES, SOCIAL SECURITY MEASURES, VESTING OF PENSION RIGHTS, CONTROL OF PRICES AND INTEREST RATES, ETC., WHICH ARE DESIGNED TO IMPROVE THE LOT OF THE VENEZUELAN WORKING MAN; AND HIS SERIES OF MEASURES OF FREEZE DEVELOPMENT OF CARACAS AND OTHER OVER-POPULATED CENTERS IN FAVOR OF DECENTRALIZING ECONOMIC ACTIVITY

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TO OTHER SITES IN VENEZUELA IN ORDER TO END A VERY MARKED SECTORAL AND GEOGRAPHIC DISEQUILIBRIUM THAT PLAGUES THE COUNTRY.

9. IN SUMMARY, MAIN THRUST OF PRESIDENT PEREZ' ECONOMIC PROGRAM IS A VERY POSITIVE AND IMPRESSIVE ONE. IF HE CAN IMPLEMENT HIS PROGRAM SUCCESSFULLY IT WILL BE A TRIUMPHANT EXAMPLE FOR DEMOCRACY IN LATIN AMERICA, AND A DEMONSTRATION THAT ECONOMIC AND SOCIAL PROGRESS FOR ALL THE PEOPLE CAN BE ACHIEVED WITHIN CONTEXT OF CAPITALIST SYSTEM.

IF HE FAILS, AS SEEMS QUITE POSSIBLE OR LIKELY GIVEN THE NORMAL GAP BETWEEN PROMISES AND ACTION IN LATIN AMERICA, IT WILL PROBABLY NOT

BE BECAUSE HIS PROPOSALS WERE TOO AUDACIOUS BUT BECAUSE HIS IMPLEMENTATION OF THEM WAS INSUFFICIENTLY EFFECTIVE. OBVIOUSLY THE PEREZ GOVERNMENT HAS ENORMOUS HANDICAPS TO OVERCOME IN THE WAY OF GROSS INEFFICIENCY OF GOVERNMENT DEPARTMENTS AND OTHER ENTITIES ON WHICH HE WILL HAVE TO RELY TO CARRY OUT HIS PROGRAM.

10. AMID ALL OF THIS WHICH IS POTENTIALLY POSITIVE, IT IS INDEED UNFORTUNATE THAT PRESIDENT PEREZ HAS ALSO THOUGHT IT NECESSARY TO TAKE SOME STEPS WHICH WE WOULD REGARD AS NEGATIVE FROM POINT OF VIEW OF FOREIGN INVESTMENT. IT MAY BE THAT VENEZUELA WILL IN REALITY GAIN LITTLE, IN ANY ECONOMIC SENSE, FROM THESE MEASURES. HOWEVER, IT MAY ALSO BE TRUE THAT WE WILL LOSE LITTLE. SO FAR U.S. INTERESTS HAVE NOT BEEN HURT AND MAY NOT BE.

11. OUR PRESENT TASK IS TO OBSERVE CAREFULLY DEVELOPMENT OF PRESIDENT PEREZ' POLICIES IN ORDER TO ASSESS, AND ATTEMPT TO LIMIT WHERE FEASIBLE, ANY DAMAGE TO U.S. INTERESTS WHICH WE MAY SEE DEVELOPING. ABOVE ALL, WE SHOULD KEEP CLEARLY IN MIND THAT OUR MAIN INTERESTS HERE ARE IN PETROLEUM AND IRON ORE, AND THAT WE SHOULD NOT SAY OR DO ANYTHING, HERE OR IN WASHINGTON, THAT COULD POISON THE ATMOSPHERE FOR THE DELICATE AND SENSITIVE NEGOTIATIONS THAT WILL BE HELD WITH THE VENEZUELAN GOVERNMENT OVER THE COMING MONTHS BY U.S. OIL COMPANIES AND BY U.S. MINING COMPANIES.
MCCLINTOCK

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, PRESIDENT, POLITICAL STABILITY, ECONOMIC STABILITY, PETROLEUM, ECONOMIC PROGRAMS, SPEECHES, FOREIGN INVESTMENTS, TAX REFORMS, ECONOMIC CO NTROLS
Control Number: n/a
Copy: SINGLE
Draft Date: 31 MAY 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: boyleja
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974CARACA04908
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740138-0515
From: CARACAS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t1974054/aaaaadgi.tel
Line Count: 248
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: CARACAS 3739
Review Action: RELEASED, APPROVED
Review Authority: boyleja
Review Comment: n/a
Review Content Flags:
Review Date: 23 SEP 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <23 SEP 2002 by boyleja>; APPROVED <19 MAR 2003 by boyleja>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PEREZ ECONOMIC PROGRAM
TAGS: EFIN, EMIN, ENRG, EGEN, VE, US, (PEREZ, CARLOS ANDRES)
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005